

VZCZCXYZ0011
PP RUEHWEB

DE RUEHLB #0523/01 1311527
ZNY SSSSS ZZH
P 111527Z MAY 09
FM AMEMBASSY BEIRUT
TO RUEATRS/DEPT OF TREASURY WASHDC PRIORITY
INFO RHEHAAA/NSC WASHDC PRIORITY
RUEHC/SECSTATE WASHDC PRIORITY 4849

S E C R E T BEIRUT 000523

SIPDIS

TREASURY FOR U/S LEVEY, DAS BAUKOL
STATE FOR NEA/FO, NEA/ELA
STATE ALSO FOR EEB ACTING A/S NELSON, PDAS HENGEL,
EB/IFD/ODF MARCELLUS, EB/ESC/TFS BACKEMEYER
NSC FOR SHAPIRO, MCDERMOTT

E.O. 12958: DECL: 05/10/2019
TAGS: [EFIN](#) [ETTC](#) [PARM](#) [KNNP](#) [EAID](#) [PTER](#) [LE](#)
SUBJECT: LEBANON: SCENESETTER FOR U/S STUART LEVEY'S VISIT

REF: A. STATE 43043
[B](#). BEIRUT 469
[C](#). BEIRUT 442

Classified By: Ambassador Michele J. Sison for reasons 1.4 (b) and (d).

[1](#)1. (SBU) You arrive three weeks before Lebanon's June 7 parliamentary elections, in which the current moderate March 14 majority faces a tough battle against the Hizballah-led opposition. The race is still too close to call, but the outcome will hinge on the electoral results in a few key Christian-majority districts. Another national unity government, with the two blocs sharing cabinet seats, is a possibility. In the current government, the opposition holds a "blocking third" veto power in the cabinet. March 14 has struggled to present unified candidate lists, with some leaders promoting their own parties to the detriment of the March 14 alliance.

[1](#)2. (C) U.S. policy in Lebanon reflects the conviction that a democratic state able to exercise responsibility over all its territory can transcend extremism and the threat posed by the arms of Iranian-backed Hizballah. U.S. interests in the Middle East would be seriously affected if Lebanon disintegrated through sectarianism or a return to civil war. Such results could foster increased terrorism or renewed conflict on Israel's border.

[1](#)3. (C) The U.S. publicly supports Lebanon's sovereignty and independence and seeks to promote moderate voices. Such voices include those of March 14, as well as those of independents who share the same democratic values. U.S. support for President Sleiman and the office of the presidency reinforce this message. However, no one group will attain effective control of the parliament or the new government given Lebanon's carefully balanced confessional system (the President is a Maronite Christian, the Prime Minister a Sunni, and the Parliament's Speaker a Shia). Thus, while seeking to influence the 2009 outcome, we must also remain focused on Lebanon's longer-term political evolution.

[1](#)4. (SBU) Meanwhile, the Lebanese economy has proven its resilience once again, emerging thus far unscathed from the financial crisis that has affected countries across the world. In 2008, growth exceeded 8% with inflation at 8%, attributed in large part to a robust and stable financial sector and sound monetary policies enforced by the Central Bank of Lebanon (CBL). Lebanon's banking sector is perceived as a safe haven for depositors, and this continued in the first quarter in 2009, raising total deposits to \$80.5 billion in March 2009. The CBL has been working with commercial banks and the Finance Ministry on increasing

interest rates subsidies to all productive sectors to encourage lending to the private sector to stimulate growth and investments. Meanwhile, the CBL and IMF project GDP growth of 4% in 2009, with inflation below 6%.

¶5. (SBU) Lebanon's Financial Intelligence Unit, the Special Investigation Commission (SIC), an independent legal entity to investigate suspicious financial transactions, continues to make progress in developing an effective money laundering and terrorism finance regime. SIC's activity is regulated by Law 318 dated 2001, which created a framework for lifting bank secrecy and mandating suspicious transaction reporting. A new draft law upgrading Law 318 has been sent to the Council of Ministers; the draft takes into account SIC experience, FATF recommendations, and best practices. The SIC has also submitted to the Central Bank a draft circular concerning "hawala" transactions, in accordance with FATF. Former SIC secretary Muhammad Baasiri was appointed Central Bank Vice Governor in April 2009 and continues to oversee SIC activities. The SIC issues a yearly report on its activities, which is also published on its website.

¶6. (SBU) SIC forwards UN designations to all banks in Lebanon, and maintains informal discussions with banks on non-UN designations. The SIC refers requests for designation or asset freeze regarding Hizballah and groups affiliated with Hizballah to the Ministry of Foreign Affairs, but does not require banks to freeze these assets, because the GOL does not consider Hizballah a terrorist organization.

¶7. (SBU) Lebanon is under mutual evaluation by MENA FATF. A MENA FATF team was in Beirut in February for on-site examination, and their report will be discussed at the second MENA FATF Plenary (tentatively in November 2009). The first Plenary will take place May 18 in Bahrain. Lebanon is not a party to the UN International Convention for the Suppression of the Financing of Terrorism.

¶8. (S) You should also be aware that both the Ambassador and EEB Acting Assistant Secretary David Nelson recently raised with Finance Minister Chatah the issue of the GOL's March 12 Memorandum of Understanding signed with Export Development Bank of Iran (EDBI) for the reactivating of a 45 million Euro loan originally signed in 2003 (Refs A and B), urging the GOL not to proceed with the loan. (Note: EDBI was designated by the U.S. under Executive Order (E.O.) 13382 on October 22, 2008 for providing financial services to multiple Ministry of Defense and Armed Forces Logistics (MODAFL)-subordinate entities. End note.) In his April 26 meeting with Chatah (Ref A), Acting A/S Nelson explained that the bank was listed for being involved in WMD proliferation, and urged the GOL to reconsider to avoid not only adverse foreign policy implications but also an adverse effect on Lebanon's status as an international banking center. Chatah told the Ambassador May 6 that he had taken steps to ensure that the agreement was kept "asleep" by tying it up in lengthy GOL bureaucratic reviews. Prime Minister Fouad Siniora raised this issue on May 9 with visiting NEA DAS David Hale and the Ambassador, urging that a solution be found so that the GOL can use the loan for road-building. SQ+yQ@QQ for growth and prosperity.

- We will evaluate the shape of our assistance programs based on the composition of the new government and the policies it advocates.

- There is no change in the U.S. position regarding Hizballah, which we regard as a terrorist organization. It is important to understand this because we know there has been recent attention on the UK's position, which is different.

- Given that, we would of course have to evaluate Hizballah's role in a new Lebanese government.

- (If raised) The United States is confident that the Special Tribunal for Lebanon will bring to justice those responsible for financing, planning, and carrying out the assassination of former Prime Minister Hariri and so many others.

- We understand all too well how terrorism has hurt Lebanon. Hundreds of American and Lebanese lives were lost in the 1983 and 1984 attacks against the U.S. Embassy and Marine Barracks.

-The terrorists hit us but failed to destroy the U.S.-Lebanese relationship, which today is stronger than ever.
SISON